Statement

Of

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Thank you for the opportunity to testify about the importance of the Community Reinvestment Act (CRA) to meeting America's affordable housing and community development needs. We believe that CRA has been, and will continue to be, instrumental to the success of federal housing programs because it encourages private capital lending and investing in affordable housing and community development projects nationwide.

I have worked in the field of affordable housing and community development for more than 30 years. Our association, the National Association of Affordable Housing Lenders (NAAHL), represents America's leaders in moving private capital to those in need. NAAHL encompasses 200 organizations committed to increasing lending and investing private capital in low- and moderate-income (LMI) communities. This "who's who" of private sector lenders and investors in affordable housing and community and economic development includes 50 major banks, the 50 blue-chip non-profit lenders, and insurance companies, community development corporations, mortgage companies, financial intermediaries, pension funds, and foundations.

Over our history, America has seen the "good", the "bad", and even the "ugly" in affordable housing. The very good news is that, during the past decade, the affordable housing industry has experienced a significant evolution and maturation in learning how to produce decent, affordable housing that people are proud to call home. For-profit and non-profit lenders and investors, developers, community leaders, and government at all levels, have learned to collaborate as partners in devising new solutions and creative financing strategies for financing affordable housing in thousands of communities.

We have learned over the years how to do it right: how to build affordable rental housing and homeownership properties that contain a mix of incomes; that is built with the discipline of the private market; that uses resources responsibly, and is of high quality and lasting value; and remains affordable over the long run. This is the "New Face of Affordable Housing", and it is beautiful.

Taking the Rough Edges Off of Capitalism

Since enacted in 1979, CRA has provided a regulatory incentive for funneling literally hundreds of billions of dollars into low and moderate income communities. Former Fed chairman Paul Volker recently characterized the law as "taking the rough edges off of capitalism", by clarifying all Federally-insured depository institutions' responsibility "to help meet the credit needs of their communities", including those of the less affluent.

This infusion of private capital leverages public subsidy as much as 10-25 times, so more affordable homes can be built with a limited amount of government support. In an era of shrinking federal subsidy, an active and growing primary market for affordable housing lending is key to achieving homes affordable to persons whose income is classified as "low" (those under 50% of area median income) and "moderate" (those under 80%).

Every academic study of CRA has confirmed that the law has been enormously successful in incentivizing insured depository institutions' involvement in underserved areas. This increased lending and equity investing have spurred economic growth and demand, thereby increasing banks' opportunities to make even more loans and sell more services. Although summary data is hard to come by, the OCC has documented that just the national banks they supervise have invested more than $16 billion in underserved areas since 1992. Most of the bank investments made under this investment authority have been in Low Income Housing Tax Credits, while others qualify for Historic Rehabilitation Tax Credits, New Markets Tax Credits, and/or are made to "Community Development Financial Institutions". These investments also support critically needed urban revitalization, rural development, and job creation. They do so in a manner that is not only beneficial to the communities served, but also ensures their profitability, and safety and soundness.

Banks supervised by the Federal Reserve Board and the Federal Deposit Insured Corporation, and thrifts supervised by the Office Thrift Supervision, also make these investments. Equally important, all insured depository institutions must document the LMI loans and services they provide.

Ohio is an excellent example of significant bank' CRA investments in affordable housing. NAAHL member Ohio Capital Corporation for Housing (OCCH) alone last year raised $182 million for affordable housing throughout the state, of which $113 million came from insured depository institutions. Altogether, OCCH has raised over $1 billion in private capital investments that generated 16,000 affordable homes in 70 Ohio counties. OCCH's Dayton Partners include: St. Mary's Development Corporation; Miller-Valentine; Dayton MHA; Daybreak; Oberer Companies; County Corporation; and Community Action Partnership. NAAHL member Red Capital, a <u>subsidiary</u> of National City bank holding company, preserved 165 affordable apartments just outside of Dayton, in Landmark Village, by combining bank investments, Section 8 project-based vouchers, And other support to renovate apartments for tenants with incomes of less than 50% of area median income.

Affordable housing lending has become increasingly sophisticated as practitioners develop new products and share best practices. Given two decades of innovation and solid experience, our vanguard can offer specific suggestions for ways to ensure the sustainability of community investment, and also to encourage even more in the new millennium. NAAHL's recommendations are as follows.

Fannie Mae and Freddie Mac Leave Good Business on the Table: Enact H.R. 1461 Reforms of Affordable Housing Goals

Lending on homes affordable to low and moderate income has been limited by the absence of a secondary mortgage market for affordable housing loans. Without a regulatory incentive to do so, Fannie Mae and Freddie Mac have been reluctant to bring the benefits of a government-sponsored secondary market to these loans. NAAHL members alone are sitting on billions of multifamily mortgages, very good business that Fannie and Freddie continue to leave on the table.

Congress now has what may be a “once in a generation” opportunity to ensure that the GSEs support primary lenders, both insured institutions and their non-profit partners, in providing liquidity and other GSE benefits to CRA qualifying loans.

Encourage a Joint CRA Rule, with Mid-Course Corrections to Support Affordable Housing
NAAHL members appreciate the fact that each of the four federal regulators for depository insured institutions have been flexible and supportive in their responses to the unprecedented Katrina disaster. However, we remain disappointed that the Office of Thrift Savings (OTS) has not yet regularized the remainder of its CRA rules with the other three agencies. We strongly support regularizing the OTS requirements for mid-tier institutions with those of the Office of the Comptroller of the Currency (OCC), the Federal Deposit Insurance Corporation (FDIC), and the Federal Reserve Board.

The FDIC, the OCC, and the Fed have jointly issued a rule that expanded the definition of community development that includes affordable housing, but also requires banks to support their communities through meaningful services and community development loans and investments. The joint rule allows “intermediate small” banks more flexibility in meeting the unique credit needs of their communities, but also ensures that underserved individuals and communities continue to be well served by the banks that operate in their area. We urge the OTS to join the other three agencies in the joint rule. We also urge that all insured institutions have this option, because the current rule discourages large banks from the very difficult, resource-intensive loans in LMI areas.

Increase the Statutory Cap on CRA Investments: Enact H.R. 3505
The House has also approved H.R. 3505, that includes an increase in the “public welfare investment” cap for insured institutions from 10% to 15% of their bank capital. The first increase since Hurricane Andrew in 1992, the cap increase was one of NAAHL’s recommendations for encouraging Katrina rebuilding. The House measure would also permit all insured institutions that may be approaching the current statutory cap to continue to make investments in their communities.

Don’t Rob Peter to Pay Paul: Dedicate Vouchers to Katrina Rebuilding

The recent uncertainty about HUD’s continued funding of Section 8 housing choice vouchers, along with the devastation caused by Katrina, both underscore the necessity of stable, reliable federal funding for affordable housing and community development. It only exacerbates existing housing problems to move existing, insufficient resources from Ohio’s needy population to another in a disaster area. This monumental disaster requires net new resources for the many LMI families devastated by this hurricane. Additional, substantial allocations of Section 8 housing choice vouchers are needed to accompany the low income housing tax credits enacted for the region.

Congress and the Administration should also provide predictable, stable funding for public housing, vouchers, HOPE VI, and other programs requiring private capital. Recent OMB proposals, and appropriated funding trends for Section 8 and public, housing have eroded private sector confidence in these programs, undermining lenders' confidence in the reliability of the Federal support. As a result, local communities' ability to leverage limited federal funding has been diminished. By contrast, with stable funding, there is an even more significant role for private capital to play in financing public housing.

Exempt CRA Investments from Basel "Materiality Bucket"

The bank regulators have issued a draft of the new, international "capital" rules for large banks. As NAAHL proposed in 2003, it exempts almost all "public welfare"/CRA investments from higher capital charges. But it would require a bank which has 10% of its capital in all equity investments (such as Low Income Housing Tax Credits (LIHTCs); Microsoft stock; convertible debt with warrants) to double the amount of capital reserved for the investments that don't qualify as CRA/"public welfare". <u>It is critical that these low-risk but lower yielding "public welfare"/CRA investments, 90% of which are housing credits, be exempted from this 10% "materiality bucket"</u> in the final rules, or banks will be discouraged from making these investments in the future.